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E.O. 12958: DECL: 02/02/2017

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SUBJECT: PAPER TIGER: GYURCSANY'S TREATISE ON REFORM

Classified By: POL/C ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (U) As Hungary prepares for Parliament's opening session February 12, Prime Minister Gyurcsany released a 5-page supplement in the publication Nepszabadsag outlining the rationale behind his reforms. That outline was itself based on a dense 23-page document entitled "Facing the Facts: on mistakes, lessons to be learned, and things to be done in 23 points."

THE NON-PAPER

¶2. (U) Gyurcsany's central thesis is familiar: Hungary has "strayed onto a dangerous path" and now risks "triple strangulation." Politically, the parties have divided a public already prone to isolationism through "left wing insensitivity" and "right wing radicalism." Economically, the adjustment to a free market based on risk and competition has been slow. Socially, the public has yet to fully accept the new balance of freedom and responsibility. And the leadership has failed to guide the nation through these challenges responsibly.

THE NON-EVENT

¶3. (C) The Prime Minister also appeared as the guest on the popular evening program ATV Frederikusz for 5 nights in a row January 29 - February 2. Gyurcsany's comments were ambiguous, particularly his references to austerity measures being "over" and his remark that reform is important ... but not vital this year. Specifically addressing health care reform, Gyurcsany described the government as a "prisoner of illusions," calling for a longer-term process to address the issue.

¶4. (C) Reaction to the document and to Gyurcsany's interview has been muted at best. Opposition leader Viktor Orban dismissed Gyurcsany's "text" in conversation with Ambassador Foley, and has not deigned to comment on either the Prime Minister's long reflections on the origins of Hungary's present gridlock or his more specific attacks on FIDESZ.

NON SEQUITUR

¶5. (C) The paper is far less interesting in what it says about reform than in what it says about Gyurcsany. Ironically, given its strong call for the overhaul of Hungary's educational system it reads oddly like a thesis: long on historical introspection but virtually devoid of practical conclusions. We share the suspicion of many that the Prime Minister wrote it himself, thus underscoring questions about the ability of his staff and the suitability of his personal management style.

¶6. (C) Addressing a small group February 2, former PM Medgyessy commented that Gyurcsany "could not have expected

to win the last elections" and was thus "unprepared" to undertake reforms. In doing so, Medgyessy continued, he has "completely overlooked the importance of building public support." After criticism for his tendency to pronounce rather than persuade, the PM's "text" strikes us as an attempt to go back to the very beginning and diagnose the problem as an intellectual exercise. Although this tack may appeal to those who already support Gyurcsany, we see little resonance among those most affected by the reforms.

17. (C) Comment: While the opposition (or at least Orban) appears intent on picking up where they left off last fall, Gyurcsany's public statements suggest increasing ambivalence regarding the pace if not the direction of reform. This would be a departure from his approach to date, which has focused on what one high-level government appointee half-jokingly called "changing everything all at once." The reforms already introduced are moving forward - to the generally laudatory reaction of the financial community and despite the spotty and sporadic reaction of the public sectors most affected. Although his broad strategy has been to absorb the shock of the austerity program and move toward recovery before the next elections, he may sense the need to adjust his tactics based on his perception of the public's threshold for change. Although most analysts would welcome a faster tempo, there is the sense that Gyurcsany is moving as quickly as the market - and the people - will bear. End Comment.

FOLEY